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C O N F I D E N T I A L SECTION 01 OF 03 ASHGABAT 001259

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E.O. 12958: DECL: 11/19/2017

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SUBJECT: TURKMENISTAN: UNUSUALLY OUTGOING DEPUTY PREMIER  
TAGIYEV ACKNOWLEDGES TO PDAS MANN THE NEED FOR NEW EXPORT  
PIPELINE OPTIONS

Classified By: CHARGE RICHARD E. HOAGLAND FOR REASONS 1.4 (B), (D)

11. (C) SUMMARY: During a November 16 meeting with Bureau of South and Central Asian Affairs Principal Deputy Assistant Secretary Steven Mann, Turkmenistan's Deputy Chairman of the

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Cabinet of Ministers for hydrocarbon issues, Tachberdi Tagiyev, was unusually forthcoming, even acknowledging for the first time that Turkmenistan needs to look for new gas export routes. Perhaps buoyed by the success of Turkmenistan's just-concluded oil and gas exhibition and conference, Tagiyev discussed for almost an hour his country's plans for developing its hydrocarbon industry, including plans to allow foreign companies to become involved in the Yoloten and Osmon gas fields in the Amu Darya basin, an area from which western companies previously banned from working. However, it was clear that policy-making power on all things hydrocarbon continues to rest with the President, rather than Tagiyev. END SUMMARY.

12. (U) Bureau of South and Central Asian Affairs Principal Deputy Assistant Secretary Steven Mann met with Deputy Chairman of the Cabinet of Ministers for hydrocarbon issues Tachberdi Tagiyev November 16, the day after the Turkmenistan International Oil and Gas Exhibition (TIOGE) was over, and congratulated the Deputy Chairman for the event's success. Tagiyev was visibly gratified by Mann's praise, the fact that so many foreign companies had participated -- and by U.S. Secretary of Energy Samuel Bodman's attendance.

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U.S. COMPANIES INTERESTED IN TURKMENISTAN

13. (C) Mann stressed that U.S. companies have world-class technology, and are interested in investing in Turkmenistan. Qting that some U.S. companies -- such as Parker Drilling -- are already active in Turkmenistan, Tagiyev hoped that more would begin to do business in his country, and added that Parker Drilling needs to expand its presence, since it currently is working only two rigs.

UNITED STATES PROMOTES DEVELOPMENT OF TURKMENISTAN'S  
HYDROCARBONS SECTOR

14. (C) Mann briefly reviewed his meetings earlier in the day with President Berdimuhamedov (which Tagiyev uncharacteristically did not attend) and with Deputy Chairman of the Cabinet of Ministers/Foreign Minister Rashit Meredov (reftels):

-- The United States wants to help support Turkmenistan's hydrocarbons sector through both private and government sector programs, and has made some suggestions how that might be done.

-- The United States considers the announcement that Turkmenistan is preparing to unify its two currency exchange rates an important, but not easy, step.

-- The president raised his hopes for delimitation of Turkmenistan's border with Azerbaijan.

-- The United States wants to respond positively to the president's request in New York for a team of U.S. financial

and legal experts in the hydrocarbon sector to come to Turkmenistan to provide training.

-- The president had voiced a plan for development of Turkmenistan's petrochemical sector and requested U.S. assistance, and Mann had promised to discuss such a program with the U.S. Trade and Development Agency (USTDA) and with businessmen.

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-- The United States does not want to interfere in Turkmenistan's gas deliveries to Russia. However, it believes that sending gas west is not just a matter of profitability, but also of enhancing Turkmenistan's sovereignty.

#### PRESIDENT AGREES TO CONSIDER CONNECTOR PIPELINE STUDY

15. (C) Mann added that he had told President Berdimuhamedov that the United States still would like to see Turkmenistan send natural gas from its offshore platforms to the West. Of course, the United States continues to support a Trans-Caspian pipeline (TCP), but that would be complicated. For now, the United States understands that the government controls the gas from the Petronas, Dragonoil and Burren blocks, and would like to see that gas sent west. The president had agreed that the United States should study the possibility of doing so, and had suggested that Mann discuss with Tagiyev and his colleagues a plan for a connector pipeline from Petronas' Livonov field in the Caspian Sea. Mann also noted that he had discussed with Berdimuhamedov and Meredov the necessary conditions that would need to be addressed for companies to be willing to do business in Turkmenistan, including visas, access to Internet and resolving issues related to the Ashgabat International School.

16. (C) Tagiyev responded by noting the changes that his government is making to its hydrocarbon structures. Turkmenistan is establishing a new agency, the Turkmen Chemicals state concern, which will fall under Tagiyev's purview. There are also plans to modernize the Seydi Oil Refinery at Turkmenabat and to strengthen the Institute of Chemistry, which helps support the country's chemical industry. Any foreign companies may make proposals for these projects.

#### TAGIYEV CLAIMS SIGNIFICANT GAS IN CASPIAN

17. (C) Tagiyev said that Turkmenistan needs to find six trillion cubic meters of gas and 12 billion tons of oil in the Caspian over the coming years. Petronas has plans to start using the gas it currently is flaring by 2010, and Dragonoil hopes to implement a new collection plan in the next year for the associated gas it is flaring. Wintershall/Maersk plans to begin drilling in 2008, and Western Geco, which laid two-dimensional seismic lines in the block being worked by Wintershall/Maersk, believes that there could be up to six trillion cubic meters of gas there. In order to get a clearer picture of how much gas might be contained in the Caspian, Turkmenistan is planning to carry out three-dimensional surveys, which it will tender out.

18. (C) Tagiyev noted that one problem his country faces is that it does not produce oil equipment, and will likely have to switch to a price formula for its gas in order to help pay for needed equipment. It has been discussing this possibility with Russia and Iran.

19. (C) Stating that "some think we do not have enough gas," Tagiyev noted that there had been recent discoveries in the Yoloten and Osmon fields. Estimated gas resources in these fields are at three trillion cubic meters. Turkmenistan wants to develop those new fields and to invite foreign companies to work there.

110. (C) Agreeing that Turkmenistan has to look at other export routes for its gas without disturbing its imports to Russia, Tagiyev noted that planning for the Trans-Afghanistan pipeline is going ahead and the TCP also has great potential.

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In response to a question, he added that Petronas plans to produce 5 billion cubic meters (bcm) of gas by 2010, and 10 bcm by 2011. Wintershall/Maersk will have received its drilling results by that time. In addition, ConocoPhillips/Lukoil is just about ready to sign a production sharing agreement (PSA) contract for blocks 19 and 120. Other companies are looking at other blocks.

#### MEETINGS WITH AZERBAIJAN: MUTUAL UNDERSTANDING

111. (C) Tagiyev told Mann that Turkmenistan has reached "mutual understanding" in its meetings with Azerbaijan's SOCAR. Both sides had tabled proposals. Asked by Mann about his thinking regarding joint projects, Tagiyev said "we are oilmen, and do not object to working together jointly (with the Azerbaijanis)." But, he added, no joint projects are currently under consideration. Tagiyev also indicated that Turkmenistan has already met with officials from Kazakhstan, Azerbaijan and Uzbekistan on energy issues, and has had several meetings with Afghanistan.

TAGIYEV ENCOURAGES U.S. PARTICIPATION IN AVAZA FREE TOURIST ZONE

¶12. (C) When Mann hoped the president would seriously consider U.S. suggestions for improving the foreign investment climate, Tagiyev (who is now spearheading the Avaza Free Tourist Zone development project on the Caspian coast) started praising the Avaza project, promising that companies that invest in the project will "get all the documents." Mann responded that he always asks three questions for any new issue: what are the benefits of the project, what market exists, and what competition is there in the region. But Avaza is an interesting project, and he wishes Turkmenistan great success with the project. Tagiyev stated that Turkmenistan hopes to hold the TIOGE in Avaza in three years.

¶13. (C) COMMENT: This was one of Mann's most successful meetings yet with Tagiyev, an oilman and technical expert rather than a strategic thinker, who frequently comes off as hopelessly old-school. Tagiyev's increased confidence following the TIOGE's success may have been the reason that he was (for Tagiyev, normally a monosyllabic interlocutor) unusually forthcoming. The fact that Tagiyev was willing, for the first time, to acknowledge to Mann the need to look at alternative export pipeline options and to state that Turkmenistan is considering allowing foreign companies to work in the Amu Darya basin is a big step forward that demonstrates that lower, technical echelons in Turkmenistan's hydrocarbon sector are finally beginning to get the president's message that some things must change. END COMMENT.

¶14. (U) PDAS Mann has cleared this cable.  
HOAGLAND